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INDEPENDENT FINANCIAL PLANNING
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CLIENT NEWSLETTER

July 2020

The Summer Statement

2019 was an unusual year for Her Majesty's Treasury. It was presided over by two different Chancellors (Messrs Hammond and Javid), but neither managed to present a Budget during the year. In contrast, 2020 is proving to be a much busier 12 months. Early on, in February, there was another change of Chancellor (to Rishi Sunak), followed by a Budget four weeks later and, unusually, a Summer Statement on 8 July. That will not be the end of things as in the Autumn there is both another Budget and a three-year Spending Review.

The Summer Statement marked the next stage of Mr Sunak's response to the Covid-19 pandemic. It was *not* a Summer Budget as, one way or another, all the Chancellor's announcements were extra expenditure, including:

Temporary Stamp Duty Land Tax cut

The Chancellor quadrupled to £500,000 the 0% band of Stamp Duty Land Tax (SDLT), which applies only in England and Northern Ireland. The new half million higher threshold will apply until the end of March 2021 and offers a maximum saving of £15,000. The 3% surcharge for second and additional homes will continue to apply. The new table for SDLT is shown below:

Slice of Residential Property Value	SDLT Rate %*
Up to £500,000	0
£500,001 - £925,000	5
£925,001 - £1,500,000	10
Over £1,500,000	12

*Add 3% for additional homes and most corporate purchases

The Scottish government has increased the Land and Buildings Transaction Tax (LBTT) nil rate band threshold from £145,000 to £250,000 from 15 July 2020, for all purchasers, and the Welsh government has increased the nil rate band threshold for Land Transaction Tax (LTT) from £180,000 to £250,000, from 27 July 2020, but this will not apply to those buying second homes or to buy-to-let investors. These changes will remain in force until 31 March 2021.

Green Homes Grant

This will launch in September and offers at least £2 for each £1 spent on home energy efficiency improvements, up to a maximum of £5,000. The grant will be available to both homeowners and landlords. Total payments are capped at £2bn, which the government says could upgrade more than 600,000 homes. As the UK has close to 30 million homes, if you want to take advantage of the offer you will probably need to act quickly.

Job Retention Bonus

The most expensive single measure announced by the Chancellor was the Job Retention Bonus (JRB). This is meant to be an employment bridge to 'the new normal' from the Coronavirus Job Retention Scheme (CJRS). The CJRS has been highly successful and equally costly, which explains why the Chancellor was at pains to emphasise it would not be extended for a third time.

The JRB will pay employers £1,000 for each formerly furloughed employee who remains continuously employed from the closure of the CJRS on 31 October 2020 until the end of January 2021. To qualify, employees must earn on average more than £520 per month in that period. Compared to the CJRS, the JRB offers employers little incentive to retain employees. The Institute for Fiscal Studies (IFS) calculates that for a typical furloughed worker, the JRB will cover less than 25% of the direct employer costs in the three months from the start of November. However, for those employers who were planning to bring their staff back to work, the JRB is an unexpected windfall.

Eat, drink (non-alcoholically) and be merry…

The hospitality and leisure sectors have been hard hit by the pandemic, with over 80% of firms in those industry sectors having temporarily ceased trading in April. The Chancellor announced two measures to boost these industries:

- *A temporary VAT cut:* From 15 July 2020 until 12 January 2021, a 5% rate of VAT will apply to supplies of:

    - Food and *non*-alcoholic drinks from UK restaurants, pubs, etc; and

    - Accommodation and admission to attractions across the UK.

  In theory the mathematics mean the prices affected will drop by 12.5%. In practice it will be interesting to see how many businesses take advantage of the cut to offset the costs of socially-distanced operation rather than pass the saving on to their customers.

- *Eat Out to Help Out:* For the month of August only, the Eat Out to Help Out Scheme will entitle you to a 50% discount of up to £10 per head on an eat-in meal (including on non-alcoholic drinks), at any participating restaurant, café, pub or other eligible food service establishment. The discount can be used an unlimited number of times but is only valid Monday to Wednesday. Despite the government's continued advice on maintaining social distance, there are no corresponding discounts for takeaway meals.

ACTION

The Chancellor's Summer Statement measures came with a price tag of up to £30bn. On some estimates he will now be borrowing £350bn in 2020/21.

Enjoy the savings on going out while you can. At some point, you (or your children) will be paying for them (see next section).

…and the Autumn Budget

Rishi Sunak has had a good crisis, at least so far. Since March he has been pumping money into the economy at an unprecedented rate. For example, claims under the CJRS had reached over £27.4bn by the start of July, covering over 9.4 million jobs. At some stage relatively soon, the Chancellor will have to stop handing out money and begin addressing the bill he has built up since Covid-19 arrived.

Come the Fall…

The Autumn Budget is likely to see the start of such a process. In theory, Mr Sunak is constrained by the promise in the Conservative's December 2019 manifesto that the rates of income tax, National Insurance (NICs) and VAT would not rise. In practice, enough has happened since the end of last year to make that particular manifesto pledge readily dispensable.

The Chancellor hinted at a rise in NICs when he introduced the Self-Employed Income Support Scheme (SEISS) by saying "…I must be honest and point out that in devising this scheme – in response to many calls for support – it is now much harder to justify the inconsistent contributions between people of different employment statuses". In the Summer Statement he reinforced the tax-raising point by remarking that "Over the medium-term, we must, and we will, put our public finances back on a sustainable footing".

What else might be on his revenue-raising list? There are some obvious candidates that have been potential targets for many Budgets and some that have emerged from hibernation:

- *Pensions tax relief*

  The latest figures (for 2017/18) from HMRC put the cost of income tax relief and NICs relief for employer pension contributions at over £53bn. The revised rules for the tapered annual allowance, announced in the March 2020 Budget, will add to that cost.

  It may be no coincidence that at the beginning of July the Chancellor's immediate predecessor, Sajid Javid, published a paper calling for tax relief on pension contributions to be moved from marginal rates of income tax (i.e. up to 45%) to a single (unspecified) flat rate, 'potentially bringing substantial savings for the Exchequer'.

- *Inheritance tax*

Mr Javid's predecessor, Philip Hammond, kicked off a review on inheritance tax (IHT) in January 2018. It resulted in two comprehensive papers from the Office of Tax Simplification (OTS), which had been expected to yield announcements in the last Budget. The focus has now turned to the Autumn Budget.

IHT is a deeply unpopular tax, even though now many families with estates valued up to £1m are outside its scope. Some restructuring of the rules, in line with the OTS suggestions, could increase the revenue raised while leaving most of the population still unaffected by the tax.

- *Individual Savings Accounts*

  Some years ago, the Treasury was reported to have examined various ISA reforms, including a cap on total investment. Since then ISA investment values and contribution limits have grown and the latest estimate is that ISAs cost the Exchequer £3.3bn in lost tax in 2018/19. It is possible that the Treasury's old plans will be dusted down and reconsidered. The popularity of ISAs appears to be on the wane, so this might look like a relatively safe time to undertake an ISA overhaul.

- *Wealth tax*

  A recent poll found that over 60% of the public supported a wealth tax on people with assets worth more than £750,000, excluding the value of the home and private pensions. At the same time there have been suggestions from economists that a one-off wealth tax could cover all the government's expenditure on dealing with Covid-19. The start of July saw one of the leading tax think tanks, the Institute for Fiscal Studies (IFS), launch a project 'investigating the desirability and feasibility of a wealth tax in the UK'.

  While the introduction of a wealth tax by a Conservative government sounds highly unlikely, these are not normal times. At the least, talk of a wealth tax may provide cover for simpler ways to raise money from the richer parts of the nation, e.g. by reform of council tax.

Given that the Chancellor is bound to be wary of stifling any economic recovery before it gains momentum, any tax changes announced in the Autumn Budget may have a delayed effect. However, the Treasury now usually includes immediate anti-forestalling measures to prevent any pre-emptive action being taken during such a deferral period.

ACTION

There is no date for the next Budget set yet, although we do know that we are back in the cycle of Autumn Budget/Spring Statement that was (re)introduced by Mr Hammond. The Budget will be all the more significant as it will be accompanied by a three year Spending Review, which should have happened in 2019.

If you are contemplating pension contributions, ISA subscriptions, making gifts or other financial planning, make sure you talk to us well before Mr Sunak gives his second 2020 Budget.

Lessons from lockdown

The period of lockdown that the UK has been through since March has been an education for many of us. You may have learned to live with Zoom video conferences or discovered how to bake bread in the absence of yeast. Perhaps you found that you actually missed office life or that the absence of cinemas/theatres/galleries (and pubs) made life less interesting.

No doubt there will be a large volume of lessons-learned analysis written if and when the pandemic is over. As a starter to that long list, here are three financial lessons which we have (re)learned in the past few months.

Have a will – and keep it up to date

More than half of British adults have not made a will. It is the perennial 'do-it-tomorrow task', not least because it involves contemplating one's own demise.

The arrival of Covid-19 and the way its danger increased with age prompted many procrastinators to consider their own mortality and then think about their will – or the absence of one.

Solicitors "acting in connection with the execution of wills" were designated as key workers, but that did not solve the procrastinators' problems as many legal firms shut up shop completely. For those solicitors that attempted to carry on, there were a variety of difficult issues, notably the fact that, in the 21st century, the law in England and Wales still requires a wet ink signature for a will, watched over and signed by two witnesses (who cannot be beneficiaries under the will). Try doing that and maintaining the necessary two metre social distance…

The lesson that was widely learned was do-it-tomorrow is the wrong approach to drafting – or updating – a will. As the pandemic underlined, you can never be sure when it might become a vital document.

The social security net has large holes

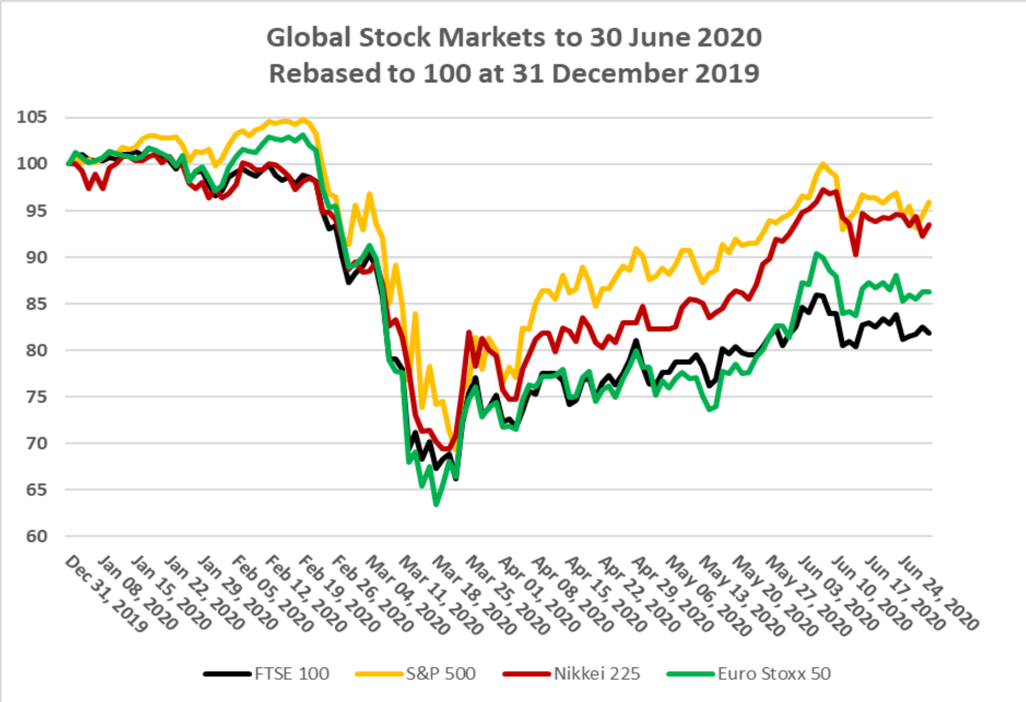
The government was widely praised for the measures that it took to give financial assistance to those affected by Covid-19, directly or indirectly. For example, the waiting period for Statutory Sick Pay was scrapped, Universal Credit was beefed up and, most importantly for over 10 million people, the CJRS and the SEISS were introduced.

That so much had to be done largely went unnoticed because it *was* done. Despite the efforts, there were still holes in the safety net – as small company directors relying on dividends rather than salary found to their cost. It proved an eye opener for many who had no recent experience of social security benefits. The fact that Statutory Sick Pay was only £95.85 a week, payable for a maximum of 28 weeks, came as a surprise, as did the exclusion of the self-employed from entitlement to it.

The cost of the government's benefit boosts actions has been huge – by the start of July the bill for the CJRS and SEISS alone was over £35bn. That figure explains why something close to the pre-Coronavirus structure of benefits is almost certain to return as the impact of the pandemic fades: a safety net that operates at the Covid-19 levels would be unaffordable in the long term.

The lesson to take is that *ordinary* state benefits on ill-health or unemployment are the bare minimum, if that – hence the government's need to uplift them during the crisis.

Don't panic!



The global stock markets all took a sharp dive when the potential impact of Covid-19 began to sink in. As the graph shows, by mid-March the main market yardsticks were 30% or more below where they started 2020. The Ides of March were scary, no doubt about it. That was less than a week before Boris Johnson announced the widely anticipated UK lockdown. Anyone who panicked then and, fearing the worst, sold out of the markets must now be regretting their actions.

Markets tend to overshoot, but it is virtually impossible to spot, other than in retrospect. Over the year to date, investors who held their nerve are still facing *paper* losses (small in the USA), but those who jumped out in mid-March have larger, *real* losses.

The investment lesson here is the same as the advice on the cover of Douglas Adams' famous 'The Hitchhiker's Guide to the Galaxy": Don't Panic (it was in red letters).

ACTION

If any of this trio of lessons rings a bell with you, then do not ignore it.

As the pandemic has proven in many areas, from keeping a stock cupboard full to personal finances, it is best to be prepared beforehand rather than try to rectify a problem when the need arises.

Past performance is not a reliable guide to the future. The value of investments and the income from them can go down as well as up. The value of tax reliefs depend upon individual circumstances and tax rules may change. The FCA does not regulate tax advice. This newsletter is provided strictly for general consideration only and is based on our understanding of law, the provisions of the Finance Bill 2020 and HM Revenue & Customs practice as at July 2020. No action must be taken or refrained from based on its contents alone. Accordingly, no responsibility can be assumed for any loss occasioned in connection with the content hereof and any such action or inaction. Professional advice is necessary for every case.